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THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON

MAY 5 - 1971

Honorable George P. Shultz
Director, Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Shultz:

We are requesting clearance to respond favorably to a proposal that is expected to be brought up shortly in the House Committee on Ways and Means, under which social security and civil service retirement earnings credits would be combined in certain situations where there is no benefit eligibility under one or either system.

This proposed amendment is based on an approach which the 1971 Advisory Council on Social Security recommended that the Congress consider. The Council's recommended plan would deal with troublesome problems of long standing. Each year some 400,000 workers either enter or leave Federal civil service employment, which is covered by the civil service retirement system and excluded from social security coverage. As a result of this employee mobility and the lack of coordination between the civil service retirement and social security systems, large numbers of people will either (a) get social security benefits, but with no retirement credit for their period of Federal employment, or (b) get benefits under the civil service retirement system, but with no retirement credit for their period of employment covered by social security, or (c) get no benefits under either system. Additionally, there are serious problems of interruptions and impairment of survivorship and disability protection.

In the past, consideration has been given to extending social security coverage to Federal civilian employees with downward adjustments in benefits and contributions under the civil service retirement system to partially offset the social security contributions and benefits that would be paid. As you know, there have been substantial changes in the civil service retirement system over the years, including changes enacted in 1969 which provided survivorship protection after 18 months' employment. In the course of these changes, the system has evolved from what was once strictly a staff-retirement system into a system that additionally provides family survivorship protection comparable to that provided under social security. In view of these changes, the

major problems arising from the exclusion of civil service work from social security coverage are now those which result for people whose working lifetimes are divided between Federal and private employment. While the extension of social security coverage would solve these problems, it would also substantially increase benefit levels for Federal employees (even with some downward adjustment of civil service retirement system benefits) and would very substantially increase costs.

Moreover, any approach involving downward adjustment of benefits under the civil service retirement system has been strongly opposed by the main organizations of Federal employees. The employee organizations have tried to obtain fully additive social security coverage on an individual voluntary basis. The latter proposal would not only entail very high costs and benefits, but is subject to the general objections to providing social security coverage on the basis of individual choice. Such a proposal was most recently considered by the Ways and Means Committee during the current executive sessions but was not approved.

There is a developing congressional interest in the general idea of combining earnings credits under the two systems, but up to now this interest has centered on a plan which would permit optional combining of social security and civil service retirement earnings credits with virtually no restrictions. Such an arrangement would produce anomalous and unreasonably high benefit results, with very high costs and, in one version (H.R. 5747, introduced by Representative Gibbons) recently presented at an executive session of the Committee on Ways and Means, with no provisions for financing the additional costs.

Under the Advisory Council's proposal for combining social security and civil service retirement earnings credits, workers who spend part of their working lifetimes in the Federal civil service, but who do not remain until retirement, would, in effect, obtain social security credit for their Federal employment. Also, people retiring under the civil service retirement system who have periods of work covered by social security, but not enough to be insured, would in many cases have somewhat improved protection because they would get some retirement credit for their social security work under the civil service retirement system. Survivorship and disability protection of workers who have separated from Federal employment or who have short Federal service would also be improved.

That part of the Council's recommendation under which Federal employment credits would be transferred to social security is generally similar to a proposal recommended by most of the groups which have studied this problem during the period since 1964. The Council's additional proposal--to transfer social security credits to the civil service retirement system in some situations--was formerly considered by some to be inconsistent with the staff-retirement objectives of the civil service retirement system. This consideration now seems much less persuasive, in view of the changes in the civil service retirement system that have tended to merge its staff-retirement provisions with provisions somewhat like those of the social security and railroad retirement systems. As you know, a limited two-way transfer-of-credits plan has long been in effect between social security and the railroad retirement system and has operated successfully.

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So as to maintain the importance of the staff-retirement role of the civil service retirement system, the enclosed specifications for a plan based on the Advisory Council's recommendation are designed to closely restrict the effect of transferred social security credits on the amount of an individual's civil service retirement annuity. For example, transferred social security credits (a) could not create benefit eligibility under the civil service retirement system, (b) could not affect the high-3-year average salary, (c) could not add more than 1 1/2 percent longevity credit for any year in the computation of a civil service annuity, and (d) could not increase the civil service retirement annuity by more than 20 percent or by more than 80 percent of the social security minimum benefit, or to an amount in excess of 80 percent of high-3-year average salary.

Finance

Under the financing provisions part of the costs would be met from the contributions of the employees who would benefit. The civil service retirement system would not be affected; there would be no loss or gain as a result of the credit transfers. Subject to the further development of cost estimates, we are assuming that there could be a negligible cost to the social security trust funds. The estimates of the cost to the Government as employer have not yet been determined but we do not think that the increases in protection provided by the plan would be of such extent as to result in a prohibitive cost to the Government. We are certain that the Government cost in respect to the additional social security benefits which would result from the transfers would be negligible in the early years--probably no cost in the first years. In any event, the cost of the plan will certainly be far below

that of an extension of social security coverage or of the unlimited transfer-of-credits plan proposed in H.R. 5747. Of course, the initial financial impact of the Council's plan could be deferred by making it applicable to benefits payable after June 1972, or even a later date.

We believe that the plan recommended by the Advisory Council has considerable merit as a reasonable and relatively inexpensive approach to a very difficult and much-studied problem. We recommend that the Administration take a position favoring adoption of the plan.

Sincerely,

Secretary

Enclosure